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# **Analysis of AB 1356 Cannabis: local jurisdictions: retail commercial cannabis activity**

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# EXECUTIVE SUMMARY

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The passage of Proposition 64, the Adult Use of Marijuana Act of 2016 ("AUMA"), legalized recreational cannabis in California and established the largest legal cannabis market in the nation. While Proposition 64 provided a broad framework for licensing, taxing, and regulating cannabis businesses across California, the implementation of the law has seen a confusing and inconsistent patchwork of local regulations and actions that have resulted in lower-than-expected tax revenues due to less-than-anticipated sales of legal adult use cannabis.

We performed an independent and objective analysis to quantify the specific economic impacts of Assembly Bill 1356 (AB 1356) *Cannabis: local jurisdictions: retail commercial cannabis activity*, which seeks to expand legal cannabis sales by establishing a statewide standard for allowable cannabis retailers. This report analyzed the provisions of AB 1356 and concluded that the adoption of AB 1356 would generate substantially higher tax revenues for state and local governments by increasing the access to and availability of tested and legal cannabis. A summary of the major findings is shown below.

## FINDINGS

### Current Legal Cannabis Market Status in California

- The cannabis tax receipts collected by California totaled \$345.2 million in 2018, which is well below what the State Legislative Analyst had projected last year.
- Prior to the passage of Proposition 64, the expected tax revenues were over \$1 billion.
- The number of existing retail cannabis licensees (including storefront, non-storefront, and temporary licenses) across California totals 834 businesses, or 1,192 licensees when including microbusinesses and delivery services. Based on existing taxable sales, retail cannabis businesses average between \$1.3 million and \$1.8 million per establishment.
- The demand for adult use cannabis in California totals approximately \$7.7 billion. (This is based on the existing per capita recreational cannabis demand found in Colorado.) With current total legal retail cannabis sales of about \$1.5 billion, this leaves about \$6.2 billion in demand met by illegal and other sources.

### Legal Cannabis Market with Adoption of AB 1356

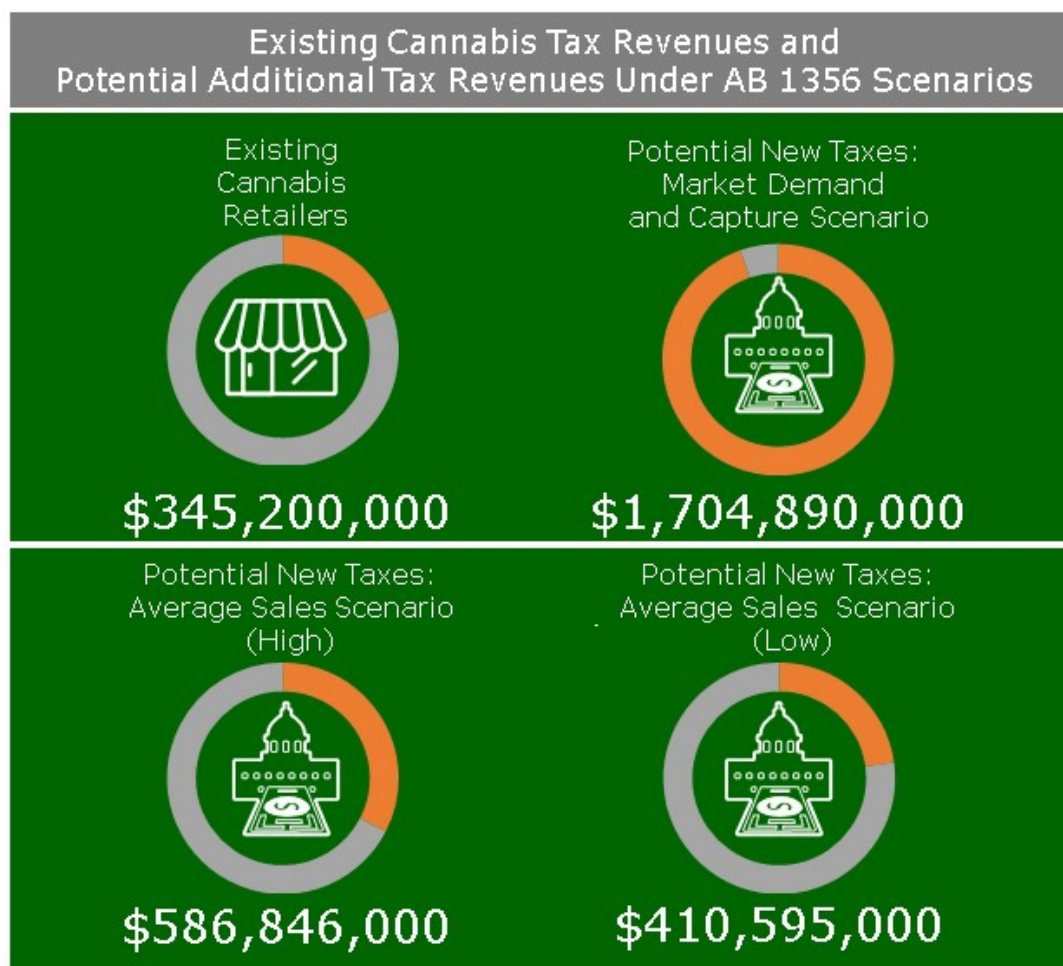
- AB 1356 would allow at least 1,195 additional cannabis retailers in the 392 incorporated cities and unincorporated county areas that voted in favor of Proposition 64. Unmet existing market demand for cannabis would potentially support up to 3,472 additional businesses, as shown in Figure 1.

**FIGURE 1: EXISTING AND POTENTIAL RETAILERS UNDER AB 1356**



- An additional 1,195 cannabis retailers would potentially support up to \$1.5 billion to \$2.1 billion of taxable sales, if these retail establishments achieve current average sales (\$1.3 million to \$1.8 million per establishment). This would potentially support up to \$410.6 million to \$586.8 million of additional state and local tax revenues (including locally passed taxes).
- If this existing \$6.2 billion in demand can be converted into legal sales through expansion of retail availability, the cannabis market can potentially support up to 3,472 additional retail businesses and \$1.7 billion in additional state and local taxes, as shown in Figure 2.

**FIGURE 2: EXISTING AND POTENTIAL TAX REVENUES UNDER AB 1356**



# ANALYSIS OF AB 1356

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## INTRODUCTION

On November 6, 2016, voters in California passed Proposition 64, the Adult Use of Marijuana Act ("AUMA"). The initiative legalized recreational cannabis in the state and provided a broad framework from which cannabis businesses would be licensed, taxed, and regulated.

The implementation of Proposition 64 has seen a patchwork of regulations undertaken by local jurisdictions, as they grapple with how to deal with recreational (adult use) cannabis businesses in their land use regulations, and business taxes and fees. Some jurisdictions have been proactive in licensing and approving cannabis businesses, while others have taken steps to block cannabis businesses from opening. In general, the inconsistent rollout of adult use cannabis businesses has been slower than expected and as a result, the tax revenues from legalized adult use cannabis have fallen short of projections issued by the State Legislative Analyst. This indicates that a very large share of existing cannabis demand continues to be met through illegal sales.

Assembly Bill 1356 (AB 1356) *Cannabis: local jurisdictions: retail commercial cannabis activity* seeks to expand legal cannabis sales by increasing the number of retail cannabis licensees. This expansion would occur through establishing a statewide standard for the minimum allowable number of retail cannabis businesses within local jurisdictions. The standard proposed by the bill is based on the ratio of cannabis retailers to on-sale alcohol licenses or the population of a local jurisdiction. AB 1356 would implement this standard only in those jurisdictions that voted in favor of Proposition 64 in 2016.

The retail ratio written into AB 1356 would specify a minimum standard of one retail cannabis license for every six on-sale alcohol licenses or one cannabis retailer for every 15,000 residents, whichever is lower. The intended outcome of this bill is to increase availability of legal cannabis at the retail level, and capture cannabis sales that would otherwise come from illegal distribution. By increasing the availability of legal cannabis, the taxable revenues would also increase.

We were retained to perform an independent and objective analysis to quantify the specific economic impacts of AB 1356. The analysis in this report estimates the potential tax revenues that would result from the increased number of legally operating retail cannabis businesses that would be allowed under AB 1356.

## EXISTING CONDITIONS

California established a legal cannabis market with the passage of Proposition 64 in 2016. The law allows for adult use cannabis retail, manufacturing, distribution, delivery, testing, and cultivation operations. These operations are primarily regulated by the California Bureau of Cannabis Control (BCC), which issues commercial licenses for both adult use and medicinal cannabis businesses. However, several state agencies also have significant roles in regulating or licensing cannabis businesses.

## **CURRENT RETAIL CANNABIS BUSINESSES**

The license database from the California Bureau of Cannabis Control (BCC) shows a total of 834 retail licensees in the state (as of April 2019), of which 817 retail licensees were located in jurisdictions that voted in favor of Proposition 64. The retail categories in that total include retail storefronts, retail non-storefront businesses (e.g., non-storefront delivery), and temporary retailers. A more inclusive tally that adds delivery services and microbusinesses to the list of potential businesses generating taxable sales shows a total of 1,192 licensees.

The cities with at least 20 existing retail cannabis businesses include Los Angeles, Oakland, Sacramento, San Francisco, and Santa Ana.

## **RECENT CANNABIS TAX RECEIPTS**

Statewide, cannabis taxes are primarily collected through excise taxes, cultivation taxes, and sales taxes. In addition, local jurisdictions can apply their own additional taxes and fees on cannabis businesses.

As shown in Table 1, the annual cannabis tax receipts in California totaled about \$345.2 million in 2018. It should be noted that this came in well below the State Legislative Analyst Office's original long-term projection of over \$1 billion annually, and the LAO's more recent projection of \$630 million for fiscal year 2018-19.

The excise tax generated \$178.4 million in 2018. The trend showed steady growth throughout the year, with growth rate tapering off in the 4<sup>th</sup> quarter.

In addition, the cultivation tax receipts totaled \$35.3 million in 2018, with much of the revenue generated in the latter half of the year.

Sales tax receipts for cannabis businesses totaled \$131.5 million in 2018, and the trends went up and down throughout the year, with the highest sales tax collections in the 4<sup>th</sup> quarter. The sales tax revenues include allocations to state and local governments, and special districts. However, the sales tax receipts do not include revenues from locally enacted cannabis taxes and fees.

Because the tax rates vary by jurisdiction, ADE requested the taxable sales data from the California Department of Tax and Fee Administration (CDTFA). They provided a rounded off taxable sales total of \$1.5 billion, with no categorical breakdowns. Using this broad figure, the effective sales tax rate came in just below 8.3 percent.

**TABLE 1: CALIFORNIA CANNABIS TAX RECEIPTS AND TAXABLE SALES**

CALIFORNIA CANNABIS	CULTIVATION		SALES TAX	TOTAL TAXES
	EXCISE TAX	TAX		
Q1 2018	\$32,000,000	\$1,600,000	\$27,300,000	\$60,900,000
Q2 2018	\$42,300,000	\$4,700,000	\$33,200,000	\$80,200,000
Q3 2018	\$53,300,000	\$12,600,000	\$34,900,000	\$100,800,000
Q4 2018	\$50,800,000	\$16,400,000	\$36,100,000	\$103,300,000
Annual	\$178,400,000	\$35,300,000	\$131,500,000	\$345,200,000
Taxable Sales (From CDTFA)				\$1,500,000,000
Current CA Retail Cannabis Licensees				834
All Current Licensees with Potential Retail Cannabis Sales				1,192
Retail Sales per Licensee Low (Based on All Potential Sales)				\$1,258,000
Retail Sales per Licensee High (Based on Only Retail Licensees)				\$1,799,000

Source: ADE, Inc.; data from CDTFA and California BCC.

These measures produced two potential benchmarks for retail sales per establishment. The low benchmark divides the taxable sales by the broader count of cannabis licensees, and results in \$1.26 million per establishment. The higher benchmark dividing the taxable sales by only the retail licensees comes out to \$1.80 million per establishment.

These benchmarks are in line with the retail cannabis sales per establishment benchmarks found in other states, which range from \$1.13 million (Oregon) to \$2.4 million (Colorado) per establishment.<sup>1</sup>

## ANALYSIS OF POTENTIAL TAX REVENUES

The analysis of potential tax revenues looks at two different scenarios, both of which are intended to illustrate a range of outcomes from full implementation of AB 1356. The first scenario is based on the calculated minimum number of retail cannabis establishments that would be allowed under AB 1356, with the tax revenues based on the benchmark average sales per establishment. The second scenario is based on the potential market demand for recreational cannabis in California.

## EXISTING TAX RATES

While revenues from taxable cannabis can come from different sources, our analysis focused on the excise tax, sales tax, and locally enacted cannabis taxes.

### EXCISE TAX

The excise tax for cannabis uses a standard 15 percent rate specified in the approved Proposition 64. The calculations for both scenarios are based on this rate. It should be noted that a legislative bill has been introduced seeking to lower the state excise tax rate to 11 percent.

### SALES TAX

Sales taxes will vary by jurisdiction. The latest updates to the sales tax rates were enacted by the state on April 1, 2019. This report uses those rates. The standard allocations for sales taxes begin with

<sup>1</sup> Marijuana Business Daily; *Marijuana Business Factbook*; 2017.



a statewide base rate of 7.25 percent.<sup>2</sup> This follows the formula established under the Bradley-Burns Uniform Sales and Use Tax Law, which allocates sales taxes as follows:

- 6.0 percent to the State
- 1.0 percent to the local jurisdiction for the point of sale (City or County)
- 0.25 percent to the local County transportation fund for the point of sale

Additional local taxes for special districts can be levied as well. These district taxes can range from 0.1 to 1.0 percent, and a specific location can have multiple districts. Currently, the highest sales tax rates in California are 10.25 and 10.5 percent, which occur in portions of Los Angeles County.

### **LOCAL CANNABIS TAX**

A city or county can also collect their own taxes on cannabis. The local cannabis taxes present a wide range, because those taxes remain very unsettled at this time. Since the passage of Proposition 64 in 2016, local governments have been in active discussion over whether to enact their own cannabis taxes, and in many cases these taxes have gone to the initiative process. Over 90 cannabis tax measures qualified for the June and November 2018 ballots in California.<sup>3</sup> Even for communities that do not currently allow retail cannabis businesses, the tax measures were presented to the voters in order to have the mechanisms in place in the eventuality that cannabis retailers are allowed. Most of those measures passed.

Even if a ballot measure specifies a maximum cannabis tax rate, many of them have set initial tax rates lower than what the measure allows. In other cases, the initial rate is set by the City Council. Because so many ballot measures passed back in November 2018, several City Councils/Boards of Supervisors have not set an initial rate because the communities have not yet approved business licenses for cannabis retailers. Some communities might also charge development fees instead of or in addition to the local cannabis taxes. Other communities will set the tax rate when they process business permit applications. Because much of the data on city websites has not been updated since the elections, our analysis did not include the development fees or any gross revenue tax rates that could not be verified through media reports or other sources.

Since local cannabis taxes are currently unsettled, the analysis made two sets of calculations – one based on the current local cannabis tax rates, and another based on the maximum approved local cannabis tax rates.

The current local cannabis taxes represent the potential local cannabis tax collections based on existing tax rates that have already been enacted. Other reliable sources were also consulted to come up with the list of jurisdictions that have local cannabis taxes in place. These existing tax rates are highly variable due to automatic annual adjustments and being subject to change at any time.

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<sup>2</sup> <https://www.cdtfa.ca.gov/taxes-and-fees/local-and-district-taxes.htm>

<sup>3</sup> [https://ballotpedia.org/Local\\_marijuana\\_tax\\_on\\_the\\_ballot#By\\_year](https://ballotpedia.org/Local_marijuana_tax_on_the_ballot#By_year)

The maximum approved local cannabis tax rates represent the highest level allowed under existing statutes. However, it should be noted that some jurisdictions have rolled back or have considered reducing local cannabis tax rates to prop up legal cannabis sales that would otherwise go to the illegal market resulting in fluctuating and variable rates.

## **TAX REVENUE SCENARIO: BASED ON AVERAGE SALES PER NEW ESTABLISHMENT**

To calculate the potential tax receipts, the first scenario is based on the average sales per establishment benchmarks shown in Table 1. Depending on the number of establishments included in the calculation, the average taxable cannabis sales per establishment will range from a low of \$1.26 million to a high of \$1.80 million. The potential tax amounts use the same high and low range.

### **ALLOWABLE CANNABIS RETAILERS UNDER AB 1356**

As shown in Table 2, the proposed retail ratio (on-sale alcohol licenses-to-retail cannabis licenses) under AB 1356 would allow at least 1,195 additional cannabis retailers in communities that voted in favor of Proposition 64. Those same eligible communities have a total of 817 existing cannabis retailers (out of 834 total in the state). This figure is based on existing Alcoholic Beverage Control (ABC) on-sale alcohol licenses by jurisdiction that voted in favor of Proposition 64. The analysis also estimated the number of additional cannabis retailers that would result from applying the alternate ratio of one cannabis retailer per 15,000 population. The potential new establishments assume that the law would take the lower value from the alcohol license and population-based ratios.

In addition, the potential new retail cannabis establishments already adjust for existing establishments. The analysis also excludes those jurisdictions whose existing cannabis retailers already exceed the minimum number allowed by the proposed retail and/or population ratios. The analysis also excludes jurisdictions with populations under 15,000 residents. The analysis does not make any assumptions about jurisdictions that might choose to opt out of the retail cannabis ratios specified under AB 1356 by passing local ballot measures.

### **ESTIMATED TAX REVENUES BASED ON AVERAGE SALES PER ESTABLISHMENT**

Using the potential establishment counts and the benchmark retail sales per establishment, the potential sales for the first scenario range from \$1.50 billion to \$2.15 billion, as shown in Table 2.

The potential sales tax totals range from \$128.5 million to \$183.6 million. The allocations to local jurisdictions will vary depending on their tax rates. The sales tax calculations are based on the latest sales tax rates (revised as of April 1, 2019) for individual jurisdictions and unincorporated county areas.

The potential excise tax totals range from \$225.6 million to \$322.4 million. This would change if proposed reductions to the state cannabis excise tax rate are passed.

Locally enacted cannabis taxes potentially add between \$27.9 million to \$39.9 million, using current rates. Using the maximum tax rates allowed by existing local laws, the additional local cannabis taxes would potentially range from \$56.6 million to \$80.8 million. As noted, this does not include developer fees or other revenues based on business square footage or other sources.

In total, the potential taxes that can be supported range from \$410.6 million to \$586.8 million in state and local taxes (assuming the maximum approved local cannabis tax rates). These calculations assume that the market can support at least 1,195 legal cannabis retailers, and that they will achieve sales in line with current sales benchmarks.

**TABLE 2: POTENTIAL CALIFORNIA CANNABIS TAX RECEIPTS FROM RETAIL CANNABIS RATIO  
(BASED ON AVERAGE SALES PER ESTABLISHMENT)**

	<b>AVERAGE SALES SCENARIO (HIGH)</b>	<b>AVERAGE SALES SCENARIO (LOW)</b>
Existing Retailers (In Eligible Jurisdictions under AB 1356)	817	817
Potential New Establishments	1,195	1,195
Potential New Sales	\$2,149,280,575	\$1,503,775,166
Potential New Taxes (Max. Approved)	\$586,845,773	\$410,595,113
Sales Tax	\$183,617,356	\$128,470,533
Excise Tax	\$322,392,086	\$225,566,275
Local Taxes (Current Rates)	\$39,910,072	\$27,923,658
Local Taxes (Max. Approved Rates)	\$80,836,331	\$56,558,305

Source: ADE, Inc.; data from California ABC, CDTFA, California BCC, Ballotpedia, Cannaforian, news searches, and individual city and county websites.

Note: Tax totals do not include cultivation taxes. Excise taxes are based on 15% of taxable sales, while sales taxes and local taxes are based on local rates.

## **TAX REVENUES SCENARIO: BASED ON MARKET DEMAND AND CAPTURE**

For the other scenario, the analysis is based on potential per capita cannabis consumption. This scenario is intended to illustrate what the cannabis market could support if existing demand is converted to legal and taxable sales.

### **BENCHMARK CANNABIS MARKET DEMAND**

The market demand was calculated using data points from the State of Colorado, which legalized cannabis use in 2014. Colorado was chosen because as a mature adult use cannabis market, Colorado could serve as a comparable indicator for what California potentially generates once the California market stabilizes and matures.

Using 2017 data from the Colorado Department of Revenue and State Demography Office, the per capita adult use cannabis demand totaled about \$194.53 annually, as shown in Table 3. This demand benchmark represents the potential addressable market for cannabis in California. Using this benchmark, annual adult use cannabis demand in California comes out to about \$7.74 billion.

**TABLE 3: CANNABIS DEMAND BENCHMARKS**

<b>COLORADO BENCHMARK</b>	
Per Capita Adult Use Cannabis Demand (2017)	\$194.53
<b>CALIFORNIA ESTIMATE</b>	
Population	39,809,693
CA Estimated Retail Cannabis Demand	\$7,744,038,359
Estimated Taxable Cannabis Sales (2018)	\$1,500,000,000
Potential Legalized Cannabis Sales (Demand Currently Unmet by Legal Sales)	\$6,244,038,359

Source: ADE, Inc.; data from Colorado Department of Revenue, Colorado State Demography Office, California Department of Finance, and CDTFA.

### ESTIMATED TAX REVENUES BASED ON MARKET DEMAND AND CAPTURE

According to CDTFA, the taxable cannabis sales in California totaled about \$1.5 billion in existing legal sales. Subtracting this from the demand, our analysis estimates that California has about \$6.2 billion in demand currently met through other sources, presumably illegal sales.

The scenario in Table 4 assumes that \$6.2 billion in potential taxable cannabis sales could occur if that demand can be converted to legal cannabis sales by expanding the number of licensed cannabis retailers. The scenario based on per capita demand assumes that expansion of retail marijuana availability will be supported by drawing sales away from existing illegal sources.

Using this scenario, the number of supportable new retail cannabis establishments totals 3,472 (assuming around \$1.8 million in sales per establishment). This number of establishments supportable by market demand would far exceed the minimum number of retailers that would be allowed under AB 1356.

With full conversion of adult use cannabis demand to taxable retail sales, these supportable establishments would generate up to \$1.70 billion in state and local taxes. This includes \$533.4 million in sales taxes, \$936.6 million in excise taxes, and between \$115.9 million (based on current local tax rates) and \$234.8 million (based on maximum allowed local tax rates) in locally enacted cannabis taxes.

**TABLE 4: POTENTIAL CALIFORNIA CANNABIS TAX RECEIPTS FROM RETAIL CANNABIS RATIO BILL PROPOSAL (BASED ON MARKET DEMAND)**

	<b>HIGH SCENARIO (BASED ON PER CAPITA DEMAND)</b>
Existing Retailers (In Eligible Jurisdictions)	817
Potential New Establishments	3,472
Potential New Sales	\$6,244,038,359
Potential New Taxes (Max. Approved)	\$1,704,890,260
Sales Tax	\$533,440,737
Excise Tax	\$936,605,754
Local Taxes (Current Rates)	\$115,945,783
Local Taxes (Max. Approved Rates)	\$234,843,769

Source: ADE, Inc.; data from California ABC, CDTFA, California BCC, Ballotpedia, Cannafornian, news searches, and individual city and county websites.

Note: Tax totals do not include cultivation taxes. Excise taxes are based on 15% of taxable sales, while sales taxes and local taxes are based on local rates.

## CONCLUSION

Based on our independent and objective analysis, passage of AB 1356 would potentially generate substantially higher tax revenues for state and local governments. This is based on the premise that broader availability of legal cannabis at the retail level will encourage spending for taxable cannabis products sold through licensed retailers.

Under the provisions of AB 1356, approximately 1,195 additional cannabis retailers would be allowed statewide. This represents a relatively modest number, because cannabis demand in California could potentially support nearly 3,500 additional retail establishments, if all the demand currently met through illegal sales can be captured by legally operating retail cannabis businesses. The difficulty in fully assessing the potential economic impacts of AB 1356 is due to the uncertainty and variations in how local governments have implemented Proposition 64 since its passage in 2016. Nonetheless, AB 1356 would establish more uniform guidelines in the further implementation of Proposition 64, with potentially enormous fiscal results for state and local governments in increased tax revenues.

# ASSUMPTIONS AND METHODOLOGY

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## ASSUMPTIONS AND METHODOLOGY

- The existing cannabis retail establishments and taxable sales came from the Bureau of Cannabis Control (“BCC”). The number of retail establishments includes a combination of storefront businesses, no storefront retailers, and temporary retailers. The higher number of existing cannabis businesses includes microbusinesses and delivery services that could potentially generate retail sales, even though their revenues also came from other sources.
- The breakdown of tax collections came from the BCC quarterly press releases. The \$1.5 billion taxable sales figure for 2018 was provided by the BCC.
- The calculation of the potential new retail cannabis establishments first identified the cities and unincorporated county areas that voted in favor of Proposition 64 in 2016. Based on the vote counts, the analysis found 392 jurisdictions where a majority of votes favored the initiative.

## ALLOWABLE NEW CANNABIS ESTABLISHMENTS

- AB 1356 identified specific on-sale alcohol licenses as the basis for the retail ratio. These counts came from the California Alcoholic Beverage Control (“ABC”). To the extent possible, the analysis segregated between establishments operating in incorporated cities and those in unincorporated areas. Using the ABC database, ADE made the initial calculation that showed at least 3,667 new cannabis retailers would be allowed under AB1356. This total accounted for existing cannabis establishments by not counting those communities where the number of existing cannabis retailers exceeds the minimum allowed under AB 1356.
- The final count of potential new establishments came from comparing the potential new establishments allowed under the on-sale alcohol license ratio with the number of retailers that would be allowed using the population-based ratio (one retailer per 15,000 residents) for each of the 392 jurisdictions that favored Proposition 64. The number of allowable establishments used the lower value from the two ratios for each jurisdiction. This resulted in a revised calculation that showed at least 1,195 new establishments would be allowed under AB 1356.
- The number of allowable establishments does not make any assumptions about communities that might independently vote to establish local limits on the number of allowable cannabis retailers.

## POTENTIAL TAX REVENUES

- The total revenue potential from these 1,195 establishments was based on the existing range of average sales per retail establishment. These averages came from dividing \$1.5 billion in taxable sales by the number of cannabis retailers. The number of cannabis retailers ranged from 834 to 1,195, depending on whether microbusinesses and delivery services were

included. This resulted in an average ranging from \$1.3 million to \$1.8 million per retailer. The average was used to estimate the total potential taxable sales, and tax revenues in the scenarios based on the average sales per store.

- The tax revenue calculations focused on the excise tax, sales tax, and local taxes. To estimate the excise tax, the analysis assumed a uniform 15 percent tax rate for retail transactions. The sales taxes were based on the current rates (as of the latest update from April 1, 2019) for each of the 392 jurisdictions in the analysis.
- Local tax rates came from a variety of different sources. *The Cannifornian* database provided summary information of cannabis laws by jurisdiction. *Ballotpedia* included information about the cannabis tax ballot measures that were voted on in 2018. The information also came from city and county websites, news sources, web searches, and blogs. Because this information is in a state of flux, the analysis used a range that included existing local tax rates and the maximum tax rates currently allowed in those jurisdictions that approved local cannabis taxes. The local taxes do not include revenues from development fees and business taxes based on building square footage.
- The analysis does not make any estimates of cultivation taxes.
- The estimated market demand for California was calculated using the per capita adult use cannabis spending from Colorado. The analysis used Colorado because the state has a comparatively mature recreational cannabis market with sales and tax data that go back to 2014. This benchmark data comes from the Colorado Department of Revenue and the State Demography Office. ADE applied the benchmarks to the California state population, as estimated by the California Department of Finance. The resulting market demand was viewed as the potential market for recreational cannabis. It should be noted that this figure does not account for fluctuations in cannabis prices.
- To estimate the amount of new tax revenues based on market demand, our analysis compared the existing legal taxable sales with the calculated market demand. The difference between the market demand and the existing legal sales was viewed as sales that can potentially be captured by establishing additional legal cannabis retailers.